

This agenda paper contains a mark-up from the text presented at the June 2012 IESBA meeting.

*Paragraph 100.10 would be deleted and replaced with the following:*

100.10 Sections 290 and 291 contain provisions with which a professional accountant shall comply if the professional accountant identifies a breach of an independence provision of the Code.

~~100.11~~ If a professional accountant identifies a breach of any other provision of this Code, the professional accountant shall evaluate the significance of the breach and its impact on the accountant's ability to comply with the fundamental principles. The accountant shall take whatever actions that may be available, as soon as possible, to satisfactorily address the consequences of the breach. The accountant shall determine whether to report the breach, for example to, those who may have been affected by the breach, a member body, relevant regulator or oversight authority.

*Paragraph 290.39, and its heading, would be deleted and replaced with the following heading and paragraphs 290.39-290.50.*

#### **Breach of a Provision of this Section**

290.39 A breach of a provision of this section may occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. A consequence of a breach may be that termination of the audit engagement is necessary.

290.40 When the firm concludes that a breach has occurred, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach.

290.41 When a breach is identified, the firm shall consider whether there are any legal or regulatory requirements that apply with respect to the breach and, if so, shall comply with those requirements. ~~In the absence of any such requirements, the firm may nevertheless determine that consultation with a member body, relevant regulator or oversight authority is appropriate.~~ The firm shall consider reporting the breach to a member body, relevant regulator or oversight authority if such reporting is common practice or is expected in the particular jurisdiction.

290.42 When a breach is identified, ~~the firm shall~~ be notified in accordance with its policies and procedures to enable it to take appropriate actions to address the consequences of the breach. The breach shall be promptly communicated to the engagement partner, the individual assigned responsibility for policies and procedures relating to independence, and other relevant personnel in the firm, and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action. ~~The firm shall~~ evaluate the significance of that breach and its impact on the firm's objectivity and ability to issue an audit report. The significance of the breach will depend on factors such as:

- The nature and duration of the breach;

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- The number and nature of any previous breaches with respect to the current audit engagement;
- Whether a member of the audit team had knowledge of the interest or relationship that caused the breach;
- Whether the individual who caused the breach is a member of the audit team or another individual for whom there are independence requirements;
- If the breach relates to a member of the audit team, the role of that individual;
- If the breach was caused by the provision of a professional service, the impact of the that professional service, if any, breach on the accounting records or the amounts recorded in the financial statements on which the firm will express an opinion; and
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

290.43 Depending upon the significance of the breach, it may be necessary to terminate the audit engagement or it may be possible to take action that satisfactorily addresses the consequences of the breach. The firm shall determine whether such action can be taken. In making this determination the firm shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing the significance of the breach, the action to be taken and all the specific facts and circumstances available to the professional accountant at that time, would be likely to conclude that the firm's objectivity would be compromised and therefore the firm is unable to issue an audit report.

290.44 Examples of actions that the firm may consider include:

- Removing the relevant individual from the audit team;
- Conducting an additional review of the affected audit work or re-performing that work to the extent necessary, in either case using different personnel;
- Recommending that the audit client engage another firm to review or re-perform the affected audit work to the extent necessary; and
- Where the breach relates to a non-assurance service that affects the accounting records or an amount that is recorded in the financial statements, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.

290.45 If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall, after informing those charged with governance, as soon as possible, take the steps necessary to terminate the audit engagement, ~~where permitted by law or regulation~~, in compliance with any applicable legal or regulatory requirements relevant to terminating the audit engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.

290.46 If the firm determines that action can be taken to satisfactorily address the consequences of the breach, the firm shall discuss the breach and the action it has taken or proposes to take with those charged with governance. ~~The appropriate timing for the discussion may vary with the nature of the breach.~~ The firm shall discuss the breach and the action as soon as possible, unless those charged with governance have specified an alternative timing for less significant breaches. The matters to be discussed shall include:

- The significance of the breach, including its nature and duration;
- How the breach occurred and how it was identified;
- The action taken or proposed to be taken and the firm's rationale for why the action will satisfactorily address the consequences of the breach and enable it to issue an audit report;
- The conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for that conclusion; and
- ~~The action taken or proposed to be taken and the firm's rationale for why the action will satisfactorily address the consequences of the breach and enable it to issue an audit report; and~~
- Any steps that the firm has taken or proposes to take to reduce or avoid the risk of further breaches occurring.

290.47 The firm shall communicate in writing with those charged with governance ~~the all~~ matters discussed in accordance with paragraph 290.46 and obtain the concurrence of those charged with governance that action can be, or has been taken to satisfactorily address the consequences of the breach. The communication shall include a description of the firm's ~~relevant~~ policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained and any steps that the firm has taken or proposes to take to reduce or avoid the risk of further breaches occurring. If those charged with governance do not concur that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the audit engagement, where permitted by law or regulation, in compliance with any applicable legal or regulatory requirements relevant to terminating the audit engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.

290.48 If the breach occurred prior to the issuance of the previous audit report, the firm shall comply with this section in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an audit report in the current period. The firm shall also consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued audit reports, and the possibility of withdrawing such audit reports, and discuss the matter with those charged with governance.

290.49 The firm shall document ~~all the~~ breaches, the action taken, key decisions made and all the matters discussed with those charged with governance and any discussions with a member body, relevant regulators or oversight authority. When the firm continues

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with the audit engagement, the matters to be documented shall also include the conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the firm could issue an audit report.

*The following paragraphs in the Code will be deleted:*

- 290.117
- 290.133
- 290.159

*Paragraph 291.33, and its heading, would be deleted and replaced with the following heading and paragraphs 291.33-37.*

**Breach of a Provision of this Section**

- 291.33 When If a breach of a provision of this section is identified, the firm shall ~~take steps as soon as possible to~~ terminate, suspend or eliminate the interest or relationship that caused the breach, and shall evaluate the significance of that breach and its impact on the firm's objectivity and ability to issue an assurance report. The firm shall determine whether action can be taken that satisfactorily addresses the consequences of the breach. In making this determination, the firm shall exercise professional judgment and take into account whether ~~consider whether, even if such action can be taken,~~ a reasonable and informed third party, weighing the significance of the breach, the action to be taken and all the specific facts and circumstance available to the professional accountant at that time, would be likely to conclude that the firm's objectivity would be compromised such that the firm is unable to issue an assurance report.
- 291.34 If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall, after discussion with the party that engaged the firm or those charged with governance, as appropriate, take the steps necessary, as soon as possible, to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement.
- 291.35 If the firm determines that action can be taken to satisfactorily address the consequences of the breach, the firm shall discuss the breach and the action it has taken or proposes to take with the party that engaged the firm or those charged with governance. ~~The appropriate timing for communicating the breach may vary with the circumstances of the breaches.~~ The firm shall discuss the breach and the proposed actions as soon as possible, unless the party that engaged the firm or those charged with governance have specified an alternative timing for reporting less significant breaches.
- 291.36 If the party that engaged the firm or those charged with governance, as appropriate, do not concur that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement.
- 291.37 The firm shall document the breach, the actions taken, key decisions made and all the matters discussed with the party that engaged the firm or those charged with governance. When the firm continues with the assurance engagement, the matters to be documented shall also include the conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the firm could issue an assurance report.

*The following paragraphs in the Code will be deleted:*

- 291.33
- 291.112
- 291.127